

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, ^{Arizona Corporation Commission} Chairman

BOB STUMP

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DOUG LITTLE

TOM FORESE

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IN THE MATTER OF THE APPLICATION

OF MORENCI WATER AND ELECTRIC

COMPANY – ELECTRIC DIVISION – FOR A

PARTIAL WAIVER OF THE RENEWABLE

ENERGY STANDARD TARIFF RULES – A.A.C.

R14-2-1803(E) AND (F).

DOCKET NO E-01049A-15-0317

APPLICATION

The Morenci Water and Electric Company (“MWE” or the “Company”) submits its Application in accordance with the Renewable Energy Standard Tariff Rules (“REST Rules”) – A.A.C. R14-2-1801 through R14-2-1816 – so that it can meet the non-distributed portion of its Annual Renewable Energy Requirement by acquiring Renewable Energy Credits (“RECs”) from Salt River Project (“SRP”). Specifically, MWE seeks a partial waiver from A.A.C. R14-2-1803(E) and (F) so that it acquire lower-cost RECs from SRP without acquiring the associated energy (i.e., the “bundled RECs”) and without needing to show that the energy (kWh) associated with the RECs are delivered to MWE’s service territory. MWE seeks this waiver in order for it to meet its 2015 Annual Renewable Energy Requirement, and its requirement for up to five years (through 2019). MWE makes this request for good cause and in accordance with A.A.C. R14-2-1816.

I. Introduction.

As a small utility in terms of number of customers, MWE has sought to comply with the REST Rules as much as possible. Doing so has not been easy given its customer profile and remote service territory. MWE has received other waivers reflecting these realities. For instance, the Company has received a waiver excluding energy sales for Freeport mining operations at Morenci and Safford; because without doing so, the costs to comply would be astronomical.

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1 MWE has also received a waiver from meeting the annual Distributed Renewable Energy
2 Requirement (even so, MWE has three non-residential distributed generation installations in its
3 service territory). So while MWE has made efforts to meet as much of the REST Rules
4 requirements as it can, the Commission has recognized its unique circumstances when granting
5 these waivers.

6 MWE has had past success meeting its non-distributed Annual Renewable Energy
7 Requirement (excluding the mining load). From 2008 through 2014, MWE has procured the
8 following RECs bundled with the associated energy and has shown the delivery of that energy to
9 its remote service territory:

- 10 • 2008 – California Biomass Energy.
- 11 • 2009, 2012, 2013 – Landfill Gas Energy from Tucson, Arizona.
- 12 • 2014 – Wind Energy from Colorado.

13 In fact, MWE has sold some of these bundled RECs to its sister utility, Ajo Improvement
14 Company (“AIC”), so it can meet its own Annual Renewable Energy Requirement.¹ Even so,
15 finding available sellers of bundled RECs and consummating the physical transactions to get the
16 energy delivered to MWE’s service territory have always been difficult. For the wind energy
17 procured in 2014, transmission issues delayed delivery of the last portions of the transaction until
18 May 2015. Further the costs of wheeling the energy from generation to MWE’s service territory
19 have been significant – the renewable premium costing as much as \$45 per megawatt-hour
20 (MWh) in some circumstances.

21 MWE is in compliance through 2014, but both MWE and AIC will need a combined
22 1,275,529 kilowatt-hours (kWhs) worth of RECs to meet their respective 2015 Annual
23 Renewable Energy Requirements. To do so, MWE has explored several options, but there is
24 simply not a robust-enough renewables and RECs market in Arizona where MWE can acquire the
25 RECs with the energy *and* deliver that energy to its service territory. As a distribution-only
26 utility, transmission access remains elusive, and merchant Eligible Renewable Energy Resources
27 (generation with available RECs and energy) are not being built. For MWE, SRP is the most

28 ¹ Ajo Improvement Company is seeking a similar waiver as MWE.

1 cost-effective option for its ratepayers to acquire RECs derived from energy generated by an
2 Arizona electric service provider, given the present circumstances.

3
4 **II. MWE's opportunity to purchase RECs from SRP.**

5 MWE has learned that SRP has an interest in selling RECs out of their current inventory
6 to both MWE and AIC. SRP is not an "Affected Utility" subject to the Commission's REST
7 Rules, but it does have RECs derived from Eligible Renewable Energy Resources to offer MWE.
8 In Arizona one REC is created for each kWh derived from an Eligible Renewable Energy
9 Resource.² SRP has agreed to sell MWE up to 20,000,000 RECs, which would satisfy both
10 MWE's and AIC's requirements for approximately five years.³ The catch is that these are
11 unbundled RECs – meaning that the MWE would acquire the RECs, but *not* the associated energy
12 that the RECs are derived from. Still, MWE would like to acquire these RECs and use them
13 toward meeting its Annual Renewable Energy Requirement – even though it would not be
14 purchasing the energy (kWh) the RECs are derived from and would not be paying to deliver the
15 energy to its service territory. SRP has banked the available RECs, while the associated energy
16 has been delivered to SRP's service territory.

17
18 **III. The reason for the request and why good cause exists to approve the waiver.**

19 The REST Rules currently require that MWE – as an "Affected Utility" per the REST
20 Rules – explicitly describe how it receives the RECs *and* the energy the RECs are derived from.
21 MWE must also show that the energy from Eligible Renewable Energy Resources is delivered to
22 its service territory, including the transmission rights to deliver that energy:

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² A.A.C. R14-2-1803(A).

28 ³ MWE could then provide AIC enough RECs so that AIC could meet its requirements.

R14-2-1803. Renewable Energy Credits

...

E. Any contract by an Affected Utility for purchase or sale of energy or Renewable Energy Credits to meet the requirements of this Rule shall explicitly describe the transfer of rights concerning both energy and Renewable Energy Credits.

F. Except in the case of Distributed Renewable Energy Resources, Affected Utilities must demonstrate the delivery of energy from Eligible Renewable Energy Resources to their retail consumers such as by providing proof that the necessary transmission rights were reserved and utilized to deliver energy from Eligible Renewable Energy Resources to the Affected Utility's system, if transmission is required, or that the appropriate control area operators scheduled the energy from Eligible Renewable Energy Resources for delivery to the Affected Utility's system.

In order for MWE to acquire RECs from SRP and use them toward meeting its non-distributed Annual Renewable Energy Requirement, it must receive a waiver of these provisions. MWE's request is in accordance with A.A.C. R14-2-1816, and it believes good cause exists to justify such waivers.

Allowing MWE to procure RECs from SRP provides a cost-effective solution for the Company to meet its requirement at this time. The cost to acquire RECs from SRP is significantly lower than the premiums in the past to acquire bundled RECs from previous suppliers (especially from out of state suppliers). Further, SRP is an in-state producer of renewable generation. In other words, the RECs are derived from renewable energy mostly (if not entirely) produced in Arizona. Thus, MWE believes that the SRP RECs, derived from predominantly in-state Eligible Renewable Energy Resources, provides benefits within Arizona, but at a significantly lower cost for it and its customers.

Further, MWE is presented with an opportunity to not only meet its 2015 Annual Renewable Energy Requirement – but to meet the same requirement for up to five years. In other words, MWE has an opportunity to acquire eligible RECs from an in-state renewable energy producer through 2019, at a reasonable and affordable cost, and that still meets the intent of the

1 REST Rules. So the Company is requesting that the waiver from A.A.C. R14-2-1803(E) and (F)
2 remain in effect through 2019. At that time, MWE can assess whether the renewables market is
3 robust enough for MWE to meet its requirement cost-effectively and efficiently absent this type
4 of waiver.

5
6 **IV. Other options are not available or not nearly as economical.**

7 Before deciding to pursue purchasing RECs from SRP, MWE explored other options to
8 meet its REST Rules requirements without a waiver. Neither Arizona Public Service Company
9 (“APS”) nor Tucson Electric Power Company (“TEP”) are selling bundled RECs. Public Service
10 Company of New Mexico is also not selling bundled RECs. Renewable developers MWE
11 contacted, such as a large wind-energy developer in the region, are either fully subscribed or did
12 not have projects go forward. The landfill gas project in Santa Cruz County that MWE hoped
13 would materialize did not – as the County opted to not pursue the project. Finally, obtaining wind
14 energy from Colorado is complicated (if not made impossible) by transmission constraints; even
15 so, the prospect of obtaining such energy is expensive and involves the minimum of two
16 transactions to wheel the energy to MWE’s service territory. Other providers may have paper
17 RECs available, but not the associated energy, and do not provide the same opportunity to
18 procure as many RECs as affordably as SRP has offered; in any event, a waiver would still be
19 needed in those circumstances. Put simply, the option to acquire SRP RECs is the best option
20 from an availability and economical perspective for the foreseeable future. MWE will then
21 continue to pursue other options that fully comply with the REST Rules requirements.

22
23 **V. Conclusion.**

24 WHEREFORE, MWE requests that the Commission:

- 25 (1) approve its request for a partial waiver of A.A.C. R14-2-1803(E) and (F) so that it can
26 acquire Renewable Energy Credits from Salt River Project;
27 (2) approve its partial waiver request for 2015 and for up to five years (through 2019); and
28 (3) grant MWE additional relief as the Commission deems just and proper.

1 RESPECTFULLY SUBMITTED this 1st day of September, 2015.

2 MORENCI WATER AND ELECTRIC COMPANY

3
4 By 

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10
11 *Original and thirteen copies of the foregoing*
filed this 1st day of September, 2015, with:

12 Docket Control
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15 Copy of the foregoing hand-delivered
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